



DRAFT

**LOSS TRUST FUND BOARD
ONE CIVIC CENTER
FINANCIAL SERVICES CONFERENCE ROOM
7447 EAST INDIAN SCHOOL ROAD, SUITE 210
SCOTTSDALE, ARIZONA
OCTOBER 26, 2005**

REGULAR MEETING MINUTES

PRESENT: David Bresnahan, Chairman
Barbara Gatlin, Vice-Chair
Tom Hartley, Board Member
James Hickok, Board Member

ABSENT: William Chamberlain, Board Member
Dean Coughenour, Board Member

STAFF PRESENT: Craig Clifford, Financial Services General Manager
Cyndi Coniam, Human Resources Manager
Kent Nemec, HR Senior Benefits Analyst
Nancy Love, HR Senior Benefits Analyst
Michael Mason, Claims Manager
Erin Taylor, Worker's Compensation Claims Specialist
Suzanne Welch, Acting Risk Management Director

1. **CALL TO ORDER AND ROLL CALL**

A regular meeting of the Scottsdale Loss Trust Fund Board was called to order by Chairman Bresnahan at 11:00 a.m. A formal roll call confirmed the members present as stated above.

2. **OLD BUSINESS**

Approval of February 2, 2005 Minutes

Mr. Clifford noted that with regard to Marsh, the City agreed to a settlement from Marsh that they voluntarily offered on a national basis. A small rebate, based on

the value of the City's premium, was received. He noted that the review did not indicate any wrongdoing specifically in Arizona. Board Member Hartley added that the overall amount was 49 percent of the contingent commissions over a four-year period.

Chairman Bresnahan recalled that there had been some discussion of the cost of reinsurance and that there would not be an increase for the City over some period of time.

BOARD MEMBER HICKOK MOVED THE APPROVAL OF THE MINUTES OF THE FEBRUARY 2, 2005 MEETING. THE MOTION WAS SECONDED BY VICE-CHAIR GATLIN AND CARRIED UNANIMOUSLY BY A VOTE OF 4 (FOUR) TO 0 (ZERO).

3. **NEW BUSINESS**

Acknowledgement of two Board Members' Service on Board

Chairman Bresnahan acknowledged the service of Board Member Hickok and Board Member Chamberlain, whose terms on the Board are expiring.

Board Member Hickok commented that it has been a great five years. He complimented the staff on the great job they perform.

Ms. Welch reported that Board Member Coughenour 's appointment had been approved by City Council. He was invited to the meeting but had a prior engagement. Two other applicants withdrew their applications at the last minute, so the search to fill the remaining spot on the Board will continue. Mr. Clifford noted that staff would take recommendations of potential board members with insurance experience.

Board Member Hartley suggested that Norm Cocanour would be a good candidate, noting that Mr. Cocanour was the risk manager at Arizona Public Service for many years, retired from APS, became the key guy with an insurance company known as Aegis, and retired from Aegis about two years ago. Board Member Hartley opined that Norm is a terrific, knowledgeable, risk management professional. Upon consensus of the Board, Board Member Hartley committed to contact Mr. Cocanour.

Chairman Bresnahan remarked that it would also be beneficial to have a board member with expertise in health care.

Flood/FEMA/ISO Connections

Chairman Bresnahan reported that he and Myron began looking into this topic in an effort to confirm that Scottsdale's classification as a Class 3 city was correct and also to identify who determines the flood plain boundaries. He noted that he ultimately discovered that this is a very complicated process.

In response to a question by Board Member Hartley, Chairman Bresnahan confirmed that the idea was to determine if the flood zones were still accurate for

City properties, particularly with regard to the wash on Pima, resulting in Scottsdale residents paying for something unnecessarily.

Ms. Welch reported that her research has confirmed that Scottsdale is in fact a Class 3 city under the ISO rating. ISO is working with the Fire Department in order to be re-graded through reevaluation, which is expected to occur in January 2006. The rate change is not expected to be large. Mr. Clifford noted that a marked reduction in response time has already been reported by moving to a municipal fire department. He further noted that a couple of new fire stations were opened in the last year or so.

Board Member Hartley noted that there are two issues: the ISO rating, which depends on the rating of the Fire Department; and the property exposure to the City if buildings are located in a flood zone. He noted that Steve Beck has access to the detailed information regarding the current flood zones. Board Member Hartley's understanding is that the federal agencies do not always update flood zones on a timely basis as new roads and drainage systems are constructed. There can then be a period of time that something can be shown in a flood zone when it is not because of all of the improvements that have been made. He suggested that the City be proactive and ask for a reevaluation instead of waiting for the agency to get around to it. He further suggested that Ms. Welch discuss the issue with Mr. Beck.

Ms. Welch noted that she checked with a flood expert who indicated that all cities want to go to FEMA to revise FIRM, the Flood Insurance Rate Map. The most recent FIRM for Scottsdale is dated September 20, 2005. Revisions are not anticipated for at least 10 years; most likely 25 years. Mr. Clifford estimated that the City has remained on top of the issue due to the growth and Council's election to discontinue the Desert Greenbelt Project because that project had a marked impact on all of the roadways.

Chairman Bresnahan remarked that sprinklered houses in the City do not receive credit. Mr. Clifford expressed a desire to find out what all of the factors are in the ISO rating and whether the sprinkler issue is being properly evaluated. Chairman Bresnahan reported that from the information he gathered, it appears that each individual company decides what discount they will give. Board Member Hartley opined that the discount for having sprinklers installed may vary from one insurance company to another, but that perhaps once the Fire Department is reevaluated and the sprinklers are factored in, companies that have not given that discount will likely begin to do so.

Property-Casualty Discussion (Risk Management Annual Report)

Reserve Practices

Erin Taylor addressed the Board regarding reserve practices for the City's workers compensation cases. Ms. Taylor stated that she sets the reserves for the work comp claims along with the Risk Management Director, when necessary. She explained that the factors that are considered when setting the reserves on a claim include the nature and the extent of the injury, the medical bills, legal and other expenses, and other issues. Every effort is made to set the

initial reserve to accurately reflect the final outcome; the probable cost of the claim. However, one of the problems with setting the reserves is when the claim is being set up, one often has limited information as to the extent of the medical injury and so forth. The Department does not practice consistent stair-stepping, but as medical information becomes available, and the progression through the injury changes, the reserves are then adjusted accordingly. The reserving is reviewed throughout the life of the claim; at least quarterly and generally more often than that.

In response to a question by Chairman Bresnahan regarding differences in practices, Ms. Taylor noted that her job is to keep the reserves as current and consistent as possible and to allow for as much as possible without having a crystal ball. Mr. Mason remarked that the differences between work comp and a carrier is that the people are still employees. The goal is to get the claim closed as quickly as possible but there can be a tail to worker comp claims, including supportive care awards which are designed to keep the individual at a stationery point. On the other hand, the claims that he deals with are pushed by litigation or other types of time limits. He further explained that the reserves on the claims that he handles are based upon the expected exposure, damages, and the cost of litigation. Mr. Mason evaluates reserves on a monthly basis due to the sensitivity of some of the large cases and reserves are adjusted accordingly, as required.

In response to comments by Chairman Bresnahan, Mr. Clifford noted that staff are actively working on and evaluating all of the claims in the City. Because the City is self-insured, reserves are estimated on a case-by-case basis using the unique history of the City as opposed to formula-based reserves. Mr. Clifford stated that this practice has proven to be probably more accurate than a formula driven approach by a larger company.

In response to inquiry by Board Member Hartley regarding the average number of outstanding claims, Ms. Taylor stated that she tries to keep the number of open claims between 115 and 130. She reported that she has a great deal of hands-on experience with these claimants and healthcare providers, and there are very few personnel outside of the City working with City employees. She noted that this practice takes a great deal of effort but pays off in the long run because it enables employees to return to work.

Mr. Mason reported that on the GL side, suit must be filed or the claim settled within one year. Approximately 35 claims are currently in litigation. A discussion ensued regarding the number of claims and the different types of claims Mr. Mason deals with on an annual basis.

Chairman Bresnahan requested clarification of the term "administrative expense". Mr. Clifford explained that it is the total cost of the Risk Division. The figure includes everything except claims that are paid.

Mr. Mason noted that claims fluctuate widely from year to year. He evaluates every fatal accident in the City, as experience has shown that these often lead to litigation against the City.

Mr. Clifford directed the Board to the Risk Management manual, which contains an annual report of all of the property, casualties, as well a discussion in the back regarding group health and dental. The Loss Trust Fund balance is noted in the very back of the manual. Mr. Clifford explained that the Loss Trust Fund balance is driven in part by the actual assessments of the reserves.

Mr. Clifford noted that the manual also contains data by each department and their losses. An overall cost of risk is contained on page 2, under the tab "Cost of Risk", which is an assessment of all of the paid losses. Mr. Clifford noted that actual losses, as a percentage of the City budget, were very favorable in 2004/2005.

Mr. Clifford directed the meeting to the blue tabs, depicting each line of coverage of a six-year loss performance. He noted that general liability claims were down in 04/05. Workers comp was also fairly favorable in 04/05 compared with prior years. Vehicle liability, again very favorable in 04/05. Vehicle physical damage was down slightly from the prior year. Property losses also comparable with prior years. Page 10 reflects the actual performance objectives for the Risk Management Division.

Mr. Clifford stated that a large portion of the remainder of the book is simply the same data, but broken out by the departments. The information is used on a very active basis by the Risk Staff in meeting with various department heads to review the performance measures, the statistics, their actual claims losses and to work with them throughout the year in an effort to mitigate future claims.

In response to inquiry by Chairman Bresnahan regarding the WestWorld facility losses, Mr. Mason reported that the losses were due to the tent fire. The City tendered the losses to the two insurance companies, which accepted the claims.

Board Member Hartley remarked that the trend lines look good and opined that tracking frequency as well as severity makes sense. He suggested that that same kind of split graphic analysis be performed on the property losses in the future.

Board Member Hartley further noted that the downward trend in the workers compensation area suggests good management of the claims by Ms. Taylor. The City's claims management strategy is having a positive impact.

Board Member Hartley noted that a departmental performance objective is to stay within a number of losses per million of budget and he applauded those efforts.

In response to a question by Board Member Hartley, Mr. Clifford explained that the allocation of costs back to the departments is based on several years' history, utilizing a multiple year historical perspective. Mr. Mason explained that it is based on a five-year history and the fixed cost based on payroll for workers compensation was 50 percent and the rest of it was based on other factors. Ms. Taylor recalled that the Department was taking slow incremental steps towards weighting it more heavily against the loss history as opposed to the payroll side.

Mr. Clifford explained that although holding departments accountable is a good principle, the risk has to be spread out, particularly with regard to catastrophic claims. Board Member Hartley opined that departments should have some incentive to minimize claims. Mr. Clifford agreed to a certain extent, but explained that there are no profit centers in city government. Board Member Hartley concurred that the catastrophic risks have to be spread out and suggested that allocations be changed as performance goals are changed.

Mr. Clifford noted on-going efforts in attempts to educate department heads that claims do affect their department. Staff has been working with the new City Fire Department from its inception. The Police Department has devoted more attention to driver training than in the past.

Group Health and Dental Discussion (Risk Management Annual Report or Supplement)

Mr. Clifford noted that the City has been fully self-insured for health and dental benefits for approximately 18 months. The plan performance on page 123 is fairly favorable, with the exception of the MMSI Preferred Position Option, where there have been a couple of large claims that did pierce the stop-loss coverage.

Mr. Clifford further noted that the addition of new employees has made it difficult to plan moving forward. As a group, the new Fire Department employees are somewhat younger and healthier than the City average. An additional challenge included the change from a calendar year basis to a fiscal year basis in an effort to line up the plans with budget planning. As a result, 18-month deductibles were reset in July and will be annualized again in 12 months, having some small impact on the claims value and the way employees are using their health plans.

In response to inquiry by Chairman Bresnahan, Cyndi Coniam addressed the status and processing of health insurance claims.

Mr. Clifford reported plans to hire an outside auditing firm this year to audit the claims, which will be an additional cost control measure. Mr. Clifford noted that the City attempts to pay incoming claims as quickly as possible.

Board Member Hartley inquired as to the Mayo situation. Mr. Clifford attributed the situation to a couple of bad losses, which he noted, could have happened with the Aetna program as well. Mr. Clifford also noted that it is a smaller group of employees and is more of a premium plan and the problem is likely an under funding issue from a rate standpoint. Staff is currently working with Willis in an effort to evaluate any further design changes to the plan or rate adjustments. Additional factors being considered for all of the plans is the option of having employees absorb more of the rising costs.

Board Member Hartley asked if the City benchmarks on an annual basis. Mr. Clifford replied that the Human Resources Department has done a great deal of that. He stated that staff is currently consulting with Willis in order to provide that immediately on the current plans and look into doing a more robust request for proposal process to obtain broader benefit consulting on a regular, for long-term basis. He added that historically, Human Resources, Risk Management and

Finance have always met on a monthly basis to review current claims and financials. Now that the City is fully self-insured the need for regular professional assistance on a month-to-month basis is recognized.

In reply to a question from Board Member Hartley, Ms. Coniam said that staff respond to all surveys they are asked to participate in so that they can obtain the results. The Department instituted the practice of participating in all the surveys within the last year. As a result, much more data is being received.

In response to a question from Board Member Hickok, Mr. Clifford confirmed that there is a contractual arrangement with the service providers that was bid out a year and a half ago. He added that the City is seeing some real benefits from these strategies. Ms. Coniam reported that the wellness component of the plan is currently being expanded. In a partnership with the providers, next year life coaches will be added to the organization to help with fitness and wellness. She further noted that the contracts are 9-year agreements, renewable every year, which creates a great partnership with Aetna and MMSI.

Chairman Bresnahan mentioned that he read an article with reference to insurance providers holding pharmaceutical companies more accountable for prescription drug pricing. Further discussion ensued regarding the definition of out-of-pocket expenses.

Board Member Hartley applauded staff for their extensive efforts. As a Board Member, he said that next year he would like to see the benchmarking type of analysis. Mr. Clifford assured him that staff would be able to provide that information, noting that with the many changes created by the self-insurance factors as well as the change in fiscal year, it had not been completely meaningful to provide that type of analysis this year.

Board Member Hartley encouraged staff to define their strategic design, set their goals, and show the Board how they are doing in comparison to other entities.

Discussion of Loss Trust Fund Balance as of June 30, 2005

Mr. Clifford referred the meeting to the yellow tab in the very back of the prepared Risk Management notebook. He informed the meeting that after 9/11 he and Myron had many discussions regarding the price of excess insurance and opted to increase the self-insured retention. Due to the number of times the City has approached that limit, the decision was made to maintain the higher retention level.

Mr. Clifford noted that page 132 is a synopsis of current standings. He explained that past losses and reserves were taken to the actuarial firm, who produced the numbers. And depending upon where the City's financial situation has floated over the last five to ten years, at one point the City was looking at a 90 percent confidence level in the property/casualty, which is extremely high and very positive. He noted that the City is currently seeing more claims and one must consider the possibility that larger claims could present in 05/06.

Mr. Clifford reported that he and Myron have been reviewing the accounting standard. He explained that for governmental accounting standards, most cities will use a 55 percent confidence level. Scottsdale is at 136 percent of that. As of June 30, 2005, the City was at an approximate 85 percent confidence level, which is still outstanding.

Mr. Clifford reported that his goal is to watch that level and maintain it. He noted that when he and Myron were reviewing all of this information and forecasting out a five-year financial plan, the goal is to keep everything healthy, but not overreact. He explained that the City could have many claims in one year and have a very positive year the next year. What the actuaries generally look at is the most recent claims experience and through their number crunching, will then produce a five-year catastrophic picture after one year. Mr. Clifford has determined, in reviewing history, that instituting changes to rates over a five-year period based upon an actuarial presentation of a catastrophic picture often results in over funding. He cited experience, obtaining good data, using actuaries and yet also ensuring that one does not overact are important factors involved in the process of maintaining healthy reserves over the long-term.

Mr. Clifford also noted that the numbers are being used now and will be included in the five-year financial planning of the City. Discussions continue between he and the City Manager regarding current claims. He stated that in the past, depending upon what the actuarial assessment presents and the level of actual reserves, some general fund dollars have been used to augment the fund itself. Mr. Clifford expressed that he does not want to do that every single year and it has not been the normal practice to do so, but it has occurred on a couple of cases.

With regard to the self-insured health plans, Mr. Clifford reminded the meeting that when the City moved to full self-insurance, the City was greatly over funded. He noted that the over funding was due in part to his pushing of every available excess dollar from the benefits fundings from prior years into the reserve, whether it was needed or not. The over funding assisted in the decision to move to self-insurance, because moving to full self-insurance created a greater need for the reserve. He reported that even with full self-insurance the numbers still show greater than 100 percent of that reserve and while the reserve looks good at June 30th, caution is being exercised. He cited the importance of evaluating the impacts of the additional staffing with regard to the health plans and the addition of the Fire Department.

In response to a question from Chairman Bresnahan, Mr. Clifford stated that he regards the 55 percent confidence level as his floor, noting that nationwide this is an acceptable number by governmental accounting. His goal is to maintain a level between 80 and 90, which would be very acceptable for the City. He stated that with regard to the benefit plans the goal is 100 percent, which would be very acceptable.

Mr. Clifford informed the meeting that City catastrophic claims are sent to the County upon settlement, which are then added on top of the ordinary property tax levy. Depending upon where the City has been in any given year, the result is one or two pennies on the total levy. It has been on the low end the past several

years, which is good. He reported that he has factored in what would occur to Scottsdale residents property tax rates in 07/08, pending settlement of claims next year, and the result is in an increase of one or two pennies, which can be offset with the debt service reserve. The property tax level is held for Scottsdale citizens and still covers the increase in the claims. Mr. Clifford further explained that as long as there is not a continuous run of years with many catastrophic claims, the system works effectively. Because it is spread across the entire tax base, the impact is nominal on individual citizens.

As an aside, Mr. Clifford explained that the Attorney General approves of this practice and the County is among the entities that follow this practice.

Board Member Hartley asked what kind of dollar value the practice represents in terms of flexibility. Mr. Clifford stated that historically the figure has fluctuated from \$600,000 to \$1 million in any one year. Discussion ensued regarding the standard practices of other cities, who use their general levy to cover catastrophic claim losses and the details involved in the process.

Board Member Hartley asked whether the Board had put something in the notes about a target confidence level two years prior; specifically confirming that the Board had not set a specific target at 90 percent. Mr. Clifford affirmed that the Board had discussed the issue a couple of years ago and recalled that at that time everything was healthy. He further explained that the adopted financial policies for the City, which have been in place for many years, a specific number is not established; they simply state that the levels will be set adequately to address the actuarial assessment. He stressed the importance of the Board's understanding that the governmental accounting standard nationwide is 55 percent and most of Scottsdale's counter-part cities are at that level. They strive to reach 55 and maintain that level.

Board Hartley acknowledged that he is perfectly comfortable with the current level; his question is whether the Board needed to take formal action indicating acceptance of the 85 percent confidence level. Mr. Clifford indicated that he would draft a document reflective of the Board's discussions to forward to City Council. The language will reflect that the level is not be lower than the governmental accepted accounting standard. Mr. Clifford noted that his intent is to maintain a level much higher than the standard 55 percent, but the established rate enables flexibility.

4. **PUBLIC COMMENT**

None.

5. **ADJOURNMENT**

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 12:24 p.m.

Respectfully submitted,
AV-Tronics, Inc.